



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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**NEWS RELEASE**

FOR RELEASE

March 16, 2007

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Schaller, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2006, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$481,928 for the year ended June 30, 2006. The receipts included \$195,335 from charges for service, \$112,129 from operating grants, contributions and restricted interest, \$154,713 in property tax, \$10,467 from local option sales tax, \$7,751 from unrestricted interest on investments and \$1,533 from other general receipts.

Disbursements for the year totaled \$510,081, and included \$88,215 for public safety, \$79,464 for public works and \$72,031 for culture and recreation. Also, disbursements for business type activities totaled \$146,510.

A copy of the report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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**CITY OF SCHALLER**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2006**

## Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-12
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A      14-15
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B      16-17
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C      18
Notes to Financial Statements	19-24
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	26-27
Notes to Required Supplementary Information – Budgetary Reporting	28
Other Supplementary Information:	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Proprietary Funds	1      30
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	31-32
Schedule of Findings	34-35
Staff	36

## City of Schaller

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2006)</b>		
Bruce Dierenfeld	Mayor	Jan 2008
Ray Voss	Mayor Pro tem	Jan 2006
Rick Sackett	Council Member	Jan 2006
Scott Currie	Council Member	Jan 2006
Brian Woodke	Council Member	Jan 2008
Clarence Hansen	Council Member	Jan 2008
<b>(After January 2006)</b>		
Bruce Dierenfeld	Mayor	(Resigned)
Ray Voss (Appointed)	Mayor	Jan 2008
Ray Voss	Mayor Pro tem	(Resigned)
Scott Currie	Mayor Pro tem	Jan 2010
Brian Woodke	Council Member	Jan 2008
Clarence Hansen	Council Member	(Resigned)
Eugene Huelman (Appointed)	Council Member	Nov 2007
Rex Rimmer	Council Member	Jan 2010
Nathan Blum	Council Member	Jan 2010
Ron Sanderman	Clerk	Indefinite
Kevin Murray	Attorney	Indefinite

**City of Schaller**



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### Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Schaller as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the city have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Schaller as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 9, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated January 24, 2007 on our consideration of the City of Schaller's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Schaller's basic financial statements. Other supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DAVID A. VAUDT, CPA  
Auditor of State

WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 24, 2007



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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The City of Schaller provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

### **2006 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities increased by 1%, or approximately \$3,200, due primarily to fiscal year 2006 being the first year for collection of local option sales tax.
- The cash basis net assets of the City's business type activities decreased by 24%, or approximately \$31,000, due primarily to a transfer of surplus funds for public safety, culture and recreation and general government purposes in fiscal year 2006.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor proprietary funds.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and the solid waste collection system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits and Economic Development Revolving Loan, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer rental, solid waste collection and apartment housing. The water and solid waste collection funds are considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$246,090 to \$249,255. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2006
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 41,107
Operating grants, contributions and restricted interest	111,829
General receipts:	
Property tax	154,713
Local option sales tax	10,467
Unrestricted interest on investments	2,587
Other general receipts	1,533
Transfers, net	44,500
Total receipts and transfers	<u>366,736</u>
Disbursements:	
Public safety	88,215
Public works	79,464
Culture and recreation	72,031
Community and economic development	43,446
General government	48,750
Debt service	31,665
Total disbursements	<u>363,571</u>
Increase in cash basis net assets	3,165
Cash basis net assets beginning of year	<u>246,090</u>
Cash basis net assets end of year	<u>\$ 249,255</u>

The cash basis net assets of the City's governmental activities increased by 1%, or approximately \$3,200, due primarily to fiscal year 2006 being the first year for collection of local option sales tax.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 51,920
Sewer	13,501
Solid waste collection	76,746
Apartment housing	12,361
General receipts:	
Unrestricted interest on investments	5,164
Total receipts	<u>159,692</u>
Disbursements and transfers:	
Water	42,740
Sewer	12,655
Solid waste collection	78,749
Apartment housing	12,366
Transfers	44,500
Total disbursements and transfers	<u>191,010</u>
Decrease in cash basis net assets	(31,318)
Cash basis net assets beginning of year	<u>131,472</u>
Cash basis net assets end of year	<u><u>\$ 100,154</u></u>

The cash basis net assets of the City's business type activities decreased by 24%, or approximately \$31,000, due primarily to a transfer of surplus funds for public safety, culture and recreation and general government purposes in fiscal year 2006.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Schaller completed the year, its governmental funds reported a combined fund balance of \$249,255, an increase of \$3,165 over last year's total of \$246,090. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$29,808 over the prior year to \$88,035. The increase is in part due to the receipt of local option sales tax of \$10,467 and to the transfer of surplus funds from Enterprise Funds for public safety, culture and recreation and general government purposes in fiscal year 2006.
- The Road Use Tax Fund cash balance decreased by \$14,242 to \$93,297 during the fiscal year. This decrease is due to added spending for road work and to the purchase of a street sweeper for \$28,000 in fiscal year 2006.
- The Employee Benefits Fund cash balance decreased by \$1,929 to \$28,877 during the fiscal year. The change in fund balance was not considered significant.

- The Economic Development Revolving Loan Fund cash balance decreased \$14,059 from the prior year to \$8,951. This decrease is due primarily to an increase in business loans from \$10,000 in the prior fiscal year to \$42,500 in the current year.
- The Debt Service Fund cash balance increased \$3,587 to \$28,832 during the fiscal year. This increase is due to a decrease in the final debt payment due on the 1996 general obligation street improvement notes.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance decreased by \$5,279 to \$26,923. This decrease was due primarily to a transfer of funds to the General Fund.
- The Solid Waste Collection Fund cash balance decreased by \$25,986 to \$54,561. The decrease was due primarily to a transfer of funds to the General Fund and additional health insurance costs.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 1, 2006 and resulted in an increase in operating disbursements in three functions: public safety, culture and recreation and general government. The City had sufficient cash balances to absorb these additional costs in addition to transferring surplus funds from the water and solid waste collection funds.

The City's receipts were \$26,894 more than budgeted. This was primarily due to the City receiving local option sales tax which was not budgeted and to unbudgeted revolving loan repayments.

Total disbursements were \$238,109 less than the final budget. The actual disbursements for the public safety, public works, general government and business type activities functions were \$55,977, \$57,995, \$30,427 and \$86,872, respectively, less than the amended budget. This was primarily due to over budgeting fire department, street cleaning, employee benefits and solid waste collection/landfill costs.

The City also exceeded the amount budgeted in the community and economic development function by \$2,055 for the year ended June 30, 2006 due to an unanticipated increase in revolving loan activity.

#### **DEBT ADMINISTRATION**

At June 30, 2006, the City had no long-term debt outstanding. This is a decrease of \$30,000 from June 30, 2005.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of Schaller's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates and fees charged for various City activities. The City's FY 2007 assessed value has decreased \$194,086 from the FY 2006 level.

The FY-2007 budget contains total receipts of \$459,053 and disbursements of \$761,767. This budget is higher than the FY 2006 budget which contained total receipts of \$433,907 and disbursements of \$727,063. The FY-2007 budget includes local option sales tax collections not included in the FY 2006 budget.

The FY-2007 levy is \$14.02021 per \$1,000 of taxable valuation, a decrease from \$16.18138 per \$1,000 of taxable valuation in 2006. The employee benefits levy increased from \$2.85420 per \$1,000 of taxable valuation in FY-2006 to \$4.16997 per \$1,000 of taxable valuation in FY-2007 due to an increase in benefits and the debt service levy decreased from \$3.25899 per \$1,000 of taxable valuation in FY-2006 to zero in FY-2007.

These parameters were taken into account when adopting the budget for FY-2007.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ron Sanderman, City Clerk, Box 120, Schaller, Iowa 51053.

## **Basic Financial Statements**

City of Schaller

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 88,215	17,473	7,367	-
Public works	79,464	160	65,222	-
Culture and recreation	72,031	17,495	10,632	-
Community and economic development	43,446	-	28,608	-
General government	48,750	1,739	-	-
Debt service	31,665	4,240	-	-
Total governmental activities	363,571	41,107	111,829	-
Business type activities:				
Water	42,740	51,920	-	-
Sewer	12,655	13,501	-	-
Solid waste collection	78,749	76,746	-	-
Apartment housing	12,366	12,061	300	-
Total business type activities	146,510	154,228	300	-
Total	\$ 510,081	195,335	112,129	-
<b>General Receipts:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Streets				
Employee benefits				
Economic development revolving loans				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.



Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(63,375)	-	(63,375)
(14,082)	-	(14,082)
(43,904)	-	(43,904)
(14,838)	-	(14,838)
(47,011)	-	(47,011)
(27,425)	-	(27,425)
(210,635)	-	(210,635)
-	9,180	9,180
-	846	846
-	(2,003)	(2,003)
-	(5)	(5)
-	8,018	8,018
(210,635)	8,018	(202,617)
125,535	-	125,535
29,178	-	29,178
10,467	-	10,467
2,587	5,164	7,751
1,533	-	1,533
44,500	(44,500)	-
213,800	(39,336)	174,464
3,165	(31,318)	(28,153)
246,090	131,472	377,562
\$ 249,255	100,154	349,409
\$ 123,392	-	123,392
28,877	-	28,877
8,951	-	8,951
88,035	100,154	188,189
\$ 249,255	100,154	349,409

City of Schaller

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2006

	General	Special Revenue		
		Road Use Tax	Employee Benefits	Economic Development Revolving Loan
Receipts:				
Property tax	\$ 91,030	-	25,402	-
Other city tax	16,131	-	1,606	-
Licenses and permits	1,739	-	-	-
Use of money and property	4,167	-	-	28,608
Intergovernmental	28,980	65,222	-	-
Charges for service	6,229	-	-	-
Special assessments	-	-	-	-
Miscellaneous	17,870	-	-	-
Total receipts	166,146	65,222	27,008	28,608
Disbursements:				
Operating:				
Public safety	88,215	-	-	-
Public works	-	79,464	-	-
Culture and recreation	72,031	-	-	-
Community and economic development	779	-	-	42,667
General government	19,813	-	28,937	-
Debt service	-	-	-	-
Total disbursements	180,838	79,464	28,937	42,667
Excess (deficiency) of receipts over (under) disbursements	(14,692)	(14,242)	(1,929)	(14,059)
Other financing sources:				
Operating transfers in	44,500	-	-	-
Net change in cash balances	29,808	(14,242)	(1,929)	(14,059)
Cash balances beginning of year	58,227	107,539	30,806	23,010
Cash balances end of year	\$ 88,035	93,297	28,877	8,951
<b>Cash Basis Fund Balances</b>				
Reserved for streets	\$ -	-	-	-
Unreserved:				
General fund	88,035	-	-	-
Special revenue funds	-	93,297	28,877	8,951
Capital projects fund	-	-	-	-
Total cash basis fund balances	\$ 88,035	93,297	28,877	8,951

See notes to financial statements.

Debt Service	Nonmajor Capital Projects	Total
29,178	-	145,610
1,834	-	19,571
-	-	1,739
-	-	32,775
-	-	94,202
-	-	6,229
4,240	-	4,240
-	-	17,870
35,252	-	322,236
-	-	88,215
-	-	79,464
-	-	72,031
-	-	43,446
-	-	48,750
31,665	-	31,665
31,665	-	363,571
3,587	-	(41,335)
-	-	44,500
3,587	-	3,165
25,245	1,263	246,090
28,832	1,263	249,255
28,832	-	28,832
-	-	88,035
-	-	131,125
-	1,263	1,263
28,832	1,263	249,255

**Exhibit C**

## City of Schaller

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2006

	Enterprise			
	Solid Waste			
	Water	Collection	Nonmajor	Total
Operating receipts:				
Charges for service	\$ 51,920	76,746	25,562	154,228
Miscellaneous	-	-	300	300
Total operating receipts	51,920	76,746	25,862	154,528
Operating disbursements:				
Business type activities	42,740	78,749	25,021	146,510
Excess (deficiency) of operating receipts over (under) operating disbursements	9,180	(2,003)	841	8,018
Non-operating receipts:				
Interest on investments	1,924	2,899	341	5,164
Excess of receipts over disbursements	11,104	896	1,182	13,182
Transfers:				
Operating transfers in	617	618	(1,235)	-
Operating transfers out	(17,000)	(27,500)	-	(44,500)
Net change in cash balances	(5,279)	(25,986)	(53)	(31,318)
Cash balances beginning of year	32,202	80,547	18,723	131,472
Cash balances end of year	\$ 26,923	54,561	18,670	100,154
<b>Cash Basis Fund Balances</b>				
Unreserved	\$ 26,923	54,561	18,670	100,154

See notes to financial statements.

City of Schaller

Notes to Financial Statements

June 30, 2006

**(1) Summary of Significant Accounting Policies**

The City of Schaller is a political subdivision of the State of Iowa located in Sac County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and solid waste collection utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Schaller has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Sac County Assessor's Conference Board, Sac County Emergency Management Commission, Sac County Municipal League and Sac County Joint E911 Service Board.

The City also participates in the Sac County Solid Waste Agency, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

**B. Basis of Presentation**

**Government-wide Financial Statement** - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining proprietary funds are aggregated and reported as nonmajor proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for employee pensions and other benefits.

The Economic Development Revolving Loan Fund is used to account for economic development business loans financed by funds accumulated.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Solid Waste Collection Fund accounts for the operation and maintenance of the City's solid waste pickup and landfill fee system.

C. Measurement Focus and Basis of Accounting

The City of Schaller maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the community and economic development function.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

**(3) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2006 was \$10,118, equal to the required contribution for the year.

**(4) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 4,200
Compensatory time	<u>10,100</u>
Total	<u>\$ 14,300</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

**(5) Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.



The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2006 were \$13,607.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from another insurer for coverage associated with workers' compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## **(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise:	
	Water	\$ 17,000
	Solid Waste Collection	27,500
Enterprise:		
Water	Apartment Housing	617
Solid Waste Collection	Apartment Housing	618
Total		<u>\$ 45,735</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(7) Economic Development Revolving Loan Fund**

The City has established an Economic Development Revolving Loan Fund and makes loans for economic development projects. During fiscal year 2006, the city approved three loan applications totaling \$42,500. Conditions of the loans are determined by the Loan Review Committee on a case by case basis, with final approval by the City Council. Current loans are for a period of five to ten years, bear interest rates from 2% to 6% per annum and are to be repaid in either monthly or quarterly installments. During the year ended June 30, 2006, principal collections of \$25,759 were received. The outstanding loan principal balance at June 30, 2006 was \$93,458.

**(8) Interfund Loans**

During the year ended June 30 2003, the Enterprise, Water and Solid Waste Collection Funds loaned the Enterprise, Apartment Housing Fund \$20,005 each, for a total of \$40,010. The loans bear interest at 6% per annum and are to be paid back over a twenty-year period beginning February 1, 2003. A total of \$1,235 was repaid during the year ended June 30, 2006 and the balance due was \$36,081.

**(9) Accounting Change**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type.

Implementation of these standards had no effect on the beginning balances of the City.

### **Required Supplementary Information**

City of Schaller  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances -  
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 145,610	-
Other city tax	19,571	-
Licenses and permits	1,739	-
Use of money and property	32,775	5,164
Intergovernmental	94,202	-
Charges for service	6,229	154,228
Special assessments	4,240	-
Miscellaneous	17,870	300
Total receipts	322,236	159,692
Disbursements:		
Public safety	88,215	-
Public works	79,464	-
Culture and recreation	72,031	-
Community and economic development	43,446	-
General government	48,750	-
Debt service	31,665	-
Business type activities	-	146,510
Total disbursements	363,571	146,510
Excess (deficiency) of receipts over (under) disbursements	(41,335)	13,182
Other financing sources, net	44,500	(44,500)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	3,165	(31,318)
Balances beginning of year	246,090	131,472
Balances end of year	\$ 249,255	100,154

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
145,610	150,835	150,835	(5,225)
19,571	7,404	7,404	12,167
1,739	1,080	1,080	659
37,939	24,549	24,549	13,390
94,202	95,032	95,032	(830)
160,457	146,717	167,844	(7,387)
4,240	1,000	1,000	3,240
18,170	7,290	7,290	10,880
481,928	433,907	455,034	26,894
88,215	106,192	144,192	55,977
79,464	137,459	137,459	57,995
72,031	78,924	80,924	8,893
43,446	41,391	41,391	(2,055)
48,750	74,677	79,177	30,427
31,665	31,665	31,665	-
146,510	256,755	233,382	86,872
510,081	727,063	748,190	238,109
(28,153)	(293,156)	(293,156)	265,003
-	-	-	-
(28,153)	(293,156)	(293,156)	265,003
377,562	310,812	310,812	66,750
349,409	17,656	17,656	331,753

City of Schaller

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$21,127. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the community and economic development function.

### **Other Supplementary Information**

**Schedule 1**

## City of Schaller

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2006

	Enterprise Funds		
	Sewer Rental	Apartment Housing	Total
Operating receipts:			
Charges for service	\$ 13,501	12,061	25,562
Miscellaneous	-	300	300
Total operating receipts	13,501	12,361	25,862
Operating disbursements:			
Business type activities	12,655	12,366	25,021
Excess (deficiency) of operating receipts over (under) operating disbursements	846	(5)	841
Non-operating receipts:			
Interest on investments	306	35	341
Excess of receipts over disbursements	1,152	30	1,182
Transfers:			
Operating transfers out	-	(1,235)	(1,235)
Net change in cash balances	1,152	(1,205)	(53)
Cash balances beginning of year	12,925	5,798	18,723
Cash balances end of year	\$ 14,077	4,593	18,670
<b>Cash Basis Fund Balances</b>			
Unreserved	\$ 14,077	4,593	18,670

See accompanying independent auditor's report.





**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

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Des Moines, Iowa 50319-0004

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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Schaller as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 24, 2007. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Schaller's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Schaller and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Schaller during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

DAVID A. VAUDT, CPA  
Auditor of State

WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 24, 2007

### **Schedule of Findings**

**Findings Related to the Financial Statements:**

**REPORTABLE CONDITIONS:**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one person has control over each of the following areas:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Investments – investing, recording and custody.
- (3) Receipts – receiving, recording, depositing and posting.
- (4) Utility billing – billing, collecting, depositing, posting and reconciling billings to collections.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will designate Council members to review reports and supporting documentation and will have them initial and date the review.

Conclusion – Response accepted.

- (B) Records of Accounts – The Fire Department and Park Playground Equipment Committee maintain the accounting records pertaining to the operations of the fire and playground. Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.”

In addition, one individual for each account handles all accounting functions for the respective activities.

Recommendation – For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be integrated with the Clerk’s accounting records.

Response – The city clerk receives financial information from the fire and park departments and will include this in the clerk’s report.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Schaller

Schedule of Findings

Year ended June 30, 2006

**Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amount budgeted in the community and economic development function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in sufficient amounts in the future.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Ray Voss, Mayor, son is owner of Jeff Voss Construction	Repair apartment building floor	\$ 117

In accordance with Chapter 362.5(11) of the Code of Iowa, the above transaction with the Mayor’s son does not appear to represent a conflict of interest since the cumulative amount was less than \$2,500 during the fiscal year.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

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City of Schaller

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager  
Paul F. Kearney, CGFM, Senior Auditor

Andrew E. Nielsen, CPA  
Deputy Auditor of State